A Case Study

CIA and the Fall of the Soviet Empire: The Politics of ``Getting It Right''

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In the wake of the 1991 collapse of the Soviet empire and the most dramatic realignment of geopolitical forces since World War II, the Central Intelligence Agency found itself fighting for its institutional life. At what should have been its moment of greatest glory–the demise of its prime ideological adversary–the CIA stood charged that it had failed the mission for which it was founded: accurately assessing the political, economic, and military state of the Soviet Union.

Critics contended that the CIA overstated the strength of the Soviet economy, underestimated the power of republican independence movements, and overestimated the military threat (thereby forcing the United States into what some considered an unnecessary arms buildup). Stansfield Turner, head of the CIA from 1977 to 1981, wrote in late 1991 that "[w]e should not gloss over the enormity of [the CIA's] failure to forecast the magnitude of the Soviet crisis...":

> *I never heard a suggestion from the CIA, or the intelligence arms of the Departments of Defense or State, that numerous Soviets recognized a growing, systemic economic problem.*(1)

Many in the media judged the CIA harshly. One representative judgment said that "the Agency was left virtually in the dark about the Soviet Bloc's political, economic, and societal decay, as well as the speed with which Communism would collapse in Eastern Europe."(2) The same article said "economists were amazed at the extent to which the CIA had overestimated the performance of the Soviet economy, leading many to speculate that the numbers were hyped to fuel the arms race." The most vociferous critic

was Democratic Senator Daniel Patrick Moynihan, a former vice-chairman of the Senate Select Committee on Intelligence, who said that "for a quarter century, the CIA has been repeatedly wrong about the major political and economic questions entrusted to its analysis."(3) Moynihan introduced a bill to abolish the CIA and place intelligence under the Secretary of State.

Lt. Gen. William Odom, director of the National Security Agency (NSA) from 1985 to 1988, expresses even stronger views on the CIA's contribution to understanding the USSR. He argues that the Agency has always been a marginal, and expendable, player in the policy world. The CIA, says Odom, should be disbanded and its functions distributed to the Departments of State and Defense, not simply because it was wrong about the Soviet Union, but because it is superfluous:

> *I can think of almost no time when the findings of an NIE [National Intelligence Estimate] caused any policymaker to change his mind on anything or caused a policy to move in one direction or another... You could close down the DDI [intelligence analysis directorate] tomorrow and nobody would miss it... The only serious issue here is whether you want to continue to pay all these people. I guess you keep idle intelligentsia off the streets. I consider by and large their analytical effort a welfare transfer package.*

The charges prompted anger and soul-searching at the Agency, spawned by the Cold War and long on its front lines. Through an internal review, in public speeches by its leaders and in private conversations, CIA analysts responded: the Agency missed almost nothing. In paper after memorandum after NIE from 1979 to 1991, say CIA officials, analysts described rising social tensions within the Soviet Union, a slowdown in economic growth, reduced rates of growth in military spending, emerging ethnic movements, changes in Soviet Third World policy and, after 1989, the ad hoc nature of Mikhail Gorbachev's leadership.

CIA defenders–they included many senior policymakers in the Reagan and Bush administrations–pointed out that no one, including academic Sovietologists, predicted the end of the Soviet system at a certain time and place. As Ambassador to Moscow Jack Matlock put it:

> *As far as being served by the CIA, I think we were served well. Policymakers have to be reasonable on expectations. No intelligence organization is going to be able to tell you precisely what events are going to occur when.*

Robert Gates, a lifelong CIA Russian analyst who rose to become Director of Central Intelligence, defended the Agency in a 1992 speech to the Foreign Policy Association:

> *Obviously, there were deficiencies in CIA's work on the Soviet Union--things we did not know and areas where we were wrong. But the body of information, analysis, and warning provided to policymakers and to Congress was of extraordinarily high quality. To claim that US intelligence in general and CIA in*

particular failed to recognize the systemic weakness of the Soviet system failed to inform policymakers of the growing crisis, or failed to warn of impending collapse of the old order is not consistent with the facts.

If there was a public sense that the Soviet Union's implosion caught the world by surprise, says the CIA, that was due not to a lack of intelligence but to an informed decision by top US Government officials that US interests would be ill-served by sounding public alarms about the doubtful future of Gorbachev and the USSR.

To a significant degree, critics of the CIA on the left and the right were reacting to the debate over Agency accuracy (or inaccuracy) in estimating Soviet GNP. Yet the economic estimate was only one tool for reaching political judgments about the future of the USSR. In the world of intelligence, where CLASSIFIED is a standard imprint, assembling a comprehensive record of proceedings is not yet possible. The following account, based on the public record and interviews as well as on documents declassified for this project by the CIA, chronicles what participants consider important moments in the Agency's analysis of Gorbachev's USSR from 1985 to 1991.

Part I: The Reagan/Gorbachev Years, 1985-88

When Mikhail Gorbachev took over from Konstantin Chernenko as General Secretary of the USSR on March 11, 1985, Ronald Reagan was in his second term. George Shultz was Secretary of State, and Caspar Weinberger was Secretary of Defense. The United States had seen signs of a softening in Soviet-US relations when, in January, Soviet Foreign Secretary Andrei Gromyko and Shultz had agreed to open negotiations on nuclear and space weapons. But it was not immediately apparent in what direction Gorbachev–a youngster among the Politburo geriatric members–would take his country.

Early Gorbachev

At Chernenko's funeral, at least one American thought he discerned in Gorbachev a new attitude. "In Gorbachev we have an entirely different kind of leader in the Soviet Union than we have experienced before," Shultz told Vice President Bush.(4) Shultz noted in his memoirs that he was impressed with the new general secretary's "quality of thought, the intensity, and the intellectual energy of this new man on the scene."(5) Gorbachev quickly accepted an invitation from Reagan for a meeting but suggested it be held in Moscow instead of Washington. Since the last summit had been in the Soviet capital, a compromise was reached for a summit in Geneva in November 1985.

At the summit, Gorbachev impressed Reagan with his willingness to take firm steps on such contentious issues as reducing strategic arms by 50 percent and working toward an agreement on INF (intermediate-range nuclear forces). Gorbachev also welcomed bridge-building measures, such as opening consulates in Kiev and New York, and resuming direct airline service between the two nations. Only two months later, in early 1986, Gorbachev demonstrated a growing talent for grabbing headlines when he proposed

cutting nuclear weapons and ballistic missiles to zero by the year 2000. He conditioned the proposal on American agreement to give up the Strategic Defense Initiative (SDI), a favorite project of Reagan's.

Domestically, too, Gorbachev was taking dramatic steps, both concrete and symbolic. He instituted a campaign of glasnost, or openness, unleashing free discussion of political topics for the first time in decades. Simultaneously, he launched a campaign to turn around the lagging economy through investment and modernization of an antiquated and technologically backward industrial base. To improve productivity, he emphasized discipline in the workplace and ran a draconian anti-alcohol campaign. Gorbachev shook up the personnel at the top of the Communist Party hierarchy, dismissing eight economic ministers and several Central Committee department chiefs, as well as supervising turnover among regional Party first secretaries.

Gorbachev also demonstrated a personal style in marked contrast to his predecessors. He met with Soviet citizens and answered their questions. He held press conferences. He spoke openly of sensitive subjects. In February 1986, Gorbachev told the 27th Communist Party Congress that Afghanistan was an "open wound" for the nation. In December 1986, he brought home from six years of internal exile the Nobel Peace Prize winner Andrei Sakharov.

While millions of Soviet citizens welcomed Gorbachev's promises of reform and renewal, the general secretary's actions dismayed many millions more accustomed for decades to hearing nothing but flattering propaganda about the well-being of their country. For different reasons, this far-from-standard Soviet leader also proved disconcerting to his audience in Washington. Both within the CIA and the top circles of the US Government, Gorbachev's policies accentuated longstanding ideological differences over how to assess the abilities and intentions of the other superpower.

The CIA of 1985

The analysis branch of the CIA, called the Directorate for Intelligence (DI), had had the Soviet Union in its sights since 1947.(6) The CIA was founded in that year with a mandate to provide policymakers an unbiased, nonpartisan, nonideological picture of Soviet actions and aims so that US leaders could make the best possible decisions on US strategies for dealing with Moscow.(7) Since the early 1960s, however, a debate about the ideological character of the Soviet Union had divided scholars and policymakers alike. The CIA, as incubator for some of the nation's most critical studies on the Soviet Union, was hardly exempt from this contest between two persuasive schools of thought on what Ronald Reagan might have termed the "evil empire" question.

The Fault Line. Simplistically put, the dividing issue was: did the Soviet Union operate primarily from ideological motives of world domination, fundamentally and dangerously different from Western societies; or had it evolved past the "Stalinist" model to a rational world actor, with a leadership looking for modest reform susceptible to pressure from increasingly potent grassroots forces? The majority of Agency analysts took, by the

1970s, a more nuanced view of Soviet motivations than these characterizations suggest. Nonetheless, various periods in Agency history were marked by significant animosity between "hawks" and "doves."(8)

The Casey Years. During the Reagan administration, hawks were unusually well represented in the CIA's leadership. Reagan appointed William Casey, his campaign manager and trusted associate, as Director of Central Intelligence.(9) Casey held firm views on the Soviet Union and had a longstanding affection for covert operations dating from his experiences during World War II. Robert Gates, who served as head of the DI from 1982 to 1986, was a Soviet scholar and longtime CIA analyst also known for his hardline interpretation of Soviet actions. Reagan dismayed many who worried about the Agency's delicate balancing act between analysis and advocacy when he made Casey a member of the Cabinet, the first time in history that a DCI had had that status.

The Agency did, in fact, fall prey to charges that under Casey it politicized intelligence reports. Secretary of State Shultz, for example, grew to distrust all intelligence documents for fear Casey had filtered their contents. As he would later write:

> *He had very strong policy positions, which were reflected in his intelligence briefings. He claimed he was objective. But his views were so strong and so ideological that they inevitably colored his selection and assessment of materials. I could not rely on what he said, nor could I accept without question the objectivity of the "intelligence" that he put out, especially in policy-sensitive areas.*(10)

Gates recalls trying to persuade Shultz that Casey was not influencing CIA reports, only exercising his legitimate right in Cabinet meetings to give his own interpretation of events:

> *I said, you may not agree with the printed product, but what really sets you off is what Casey says at the table. Go back to your office and look at the printed product. That's not necessarily what Casey thinks. In fact, he disagrees on a lot of the stuff that I publish. But I happen to think that the Director, as long as he represents at the table what the views of the Community are, ought to have the freedom then to say `But here's what I think.'*

Others, too, argued that Casey had every right, indeed a responsibility, to present his own views to his colleagues in the Cabinet. As Prof. Harry Rowen of Stanford University put it in a crisp letter to *The New York Times:* "A CIA director is not supposed to be an intellectual eunuch."(11)

Whatever the justifications may have been, it was a fact that within the Agency--within the ranks of the administration--individuals worried about the possibility that intelligence was being politicized. During the early to mid-1980s, several CIA projects on Soviet affairs sparked internal controversy over their conclusions: one assessment of Soviet strength in the Third World, another on possible Soviet links to the assassination attempt

against Pope John Paul II, a third on the potential for Soviet interference in Iran. In all three cases, a number of analysts felt that Casey and Gates had ensured the final product made the most damning case possible against the Soviets, based on what they considered flimsy evidence.(12)

SOVA Hardest Hit. While many departments within the CIA contributed to assessments of the Soviet Union, the chief responsibility for following Moscow lay with the Office of Soviet Analysis (SOVA). Not surprisingly, it was hardest hit by the "politicization battle." Even analysts who had no personal grudge against Gates conceded that the atmosphere within SOVA (along with the Global Issues Office, which also closely monitored the USSR) was confrontational. A number of analysts felt themselves unfairly singled out for being "soft" on Communism. As Robert Blackwell, a high-ranking CIA official, puts it, "There was a tension in this building."

> *It was palpable. Whether anything was being twisted or reordered upstairs or not, people felt that they were under extra burdens to somehow be very careful about how things were said....Papers that were exceptionally hard hitting and very negative about whatever it might have been didn't seem to get quite as much critique as ones that weren't, or at least many felt that.*

Douglas MacEachin, director of SOVA from 1984 to 1989, would later say that "the [Third World] division [of SOVA] tended to see themselves in a holy war with the administration.(13) He, too, felt the burden:

> *The period during which I felt I had the least impact [on policy] was during the Reagan administration. They thought of us as the enemy.... The implication was that part of the national threat was that the CIA undercut our ability to rebuild our national forces. The administration charged the CIA with being too liberal. It said we underestimated the military threat, underestimated the Soviet threat in the Third World.*

Thus, by 1985, the CIA, especially SOVA, was trusted neither by the left nor the right within the administration. Hardliners distrusted the CIA as "Communist sympathizers" because its assessments tended to be less strident than Casey's. At the same time, potential CIA allies within the policy community, such as Shultz, also mistrusted CIA documents because they feared the influence of Casey.

Gorbachev would provide a new focus for these preexisting divisions both within the CIA and between the CIA and the administration.

Reaction in Washington

Gorbachev's arms proposals, his domestic program, and his public relations savvy left the US administration divided. Many members of Reagan's White House felt that Gorbachev was playing a divide-and-conquer game against NATO and the United States, seeking to lull them with apparent concessions, only to return in strength, once the Western alliance

had lost its cohesion. Others gave Gorbachev the benefit of the doubt, taking him at his word as a reformer until proved otherwise.

By 1986, Shultz and Reagan had concluded that Gorbachev, as Shultz put it, "was proving to be an energetic advocate of appealing positions."(14) But where Shultz and the President saw opportunity, Weinberger, Casey, Richard Perle, and others in the administration saw Soviet cunning and trickery. They pointed to strong historical precedents for refusing to believe that Gorbachev was operating in good faith.

No Downsides. The administration sought a Soviet policy that took into account both points of view. For decades, US self-interest vis-à-vis the Soviet Union had been defined almost exclusively in terms of the concessions Washington could extract on arms control. Now the White House, as then National Security Council Special Assistant Jack Matlock describes it, wanted to expand the definition of US self-interest to take into account the possibilities Gorbachev offered for revolutionizing East-West relations. Says Matlock:

> *What you had to do was find a policy that would protect you if [true reform] didn't happen, but would take advantage of it if it did. And that's what we devised. It was a policy with no downsides.*

The policy became, in Matlock's words, "to bring down the Iron Curtain without saying so, and to cooperate on and demilitarize conflicts in third areas." Arms control, he and others believed, would "follow, not precede" internal Soviet change, and "We really had to force them to change internally and to bring pressure to bear." Skeptics like Casey raised no objections to the new policy, says Matlock, "because we weren't really sacrificing anything." Besides, part of the pressure the Reagan administration put on Moscow came in the form of a massive US arms buildup, plus the early development of SDI, both very welcome to hardliners.

Shultz, however, felt Casey and his fellow hardliners remained stubbornly negative in their view of Gorbachev. During senior-level meetings on Soviet affairs, Shultz came to discern a pattern:

> *I would describe how the Soviets were moving in our direction and point to steps we should take to keep that positive movement going. Cap Weinberger would then say that we were falling for Soviet propaganda. CIA director Bill Casey or his deputy, Bob Gates, would say that CIA intelligence analysis revealed that Gorbachev had done nothing new, only talked a different line. And most of those present would try to stimulate the President's fear that any US diplomatic engagement with Moscow would jeopardize the future of SDI.*(15)

Whatever the discussion at the Cabinet level, such negative judgments were not typical of CIA estimates during Gorbachev's early years. While Agency analysts had a vivid appreciation of the difficulties confronting Gorbachev, assessments were also cautiously optimistic about his sincerity and his chances for success.

For decades, the primary focus of CIA Soviet analysis had been on the balance between the two superpowers. Thus, papers examined in detail Soviet activities in the Third World, the minutiae of weapons programs, and the state of the economy. Only in 1984 did the Agency establish a new branch called Societal Issues to examine domestic political and social developments. Most CIA reports continued, however, to focus on the "big three" topics.

An Early Assessment of Gorbachev and the Economy

In September 1985, six months after Gorbachev took over, the DI published one of its early analyses of Gorbachev's USSR under the title "Gorbachev's Economic Agenda: Promises, Potentials and Pitfalls." The report noted that Gorbachev has "set in motion the most aggressive economic agenda since the Khruschev era." It acknowledged the enormity of his task: reforming an economy "that cannot simultaneously maintain rapid growth in defense spending, satisfy demand for greater quantity and variety of consumer goods and services, invest the amounts required for economic modernization and expansion and continue to support client-state economies." Gorbachev, said the DI, "in our view has a clear understanding of these limitations; he is obviously extremely impatient that they be addressed now."

If anyone understood what Gorbachev was up against, it was the CIA. For decades it had tracked the Soviet economy estimating annually both the absolute value of various segments of the economy and long-term trends. Every year, the CIA submitted declassified reports on the Soviet economy to Congress, specifically to the Joint Economic Committee (JEC) and its subcommittees. The most important measures CIA provided policymakers were an estimate of Soviet GNP (gross national product) and its rate of growth.

Chronic Slowdown. The Agency had been pointing to a chronic slowdown in the Soviet economy since the 1970s. In 1977, the CIA told the JEC that "the Soviet economy faces serious strain in the decade ahead" and that the low growth rate would pose hard choices for Soviet leaders. That refrain was heard again in 1980, when then DCI Adm. Stansfield Turner told the JEC that "the combination of slowing economic growth and rising military outlays poses difficult choices for the leadership over the next several years."

Blunter still was the 1981 report:

> *The Soviet pattern in many respects conforms to that of a less developed country. There is remarkably little progress toward a more modern pattern. The USSR is indeed the world's most underdeveloped developed country. Long-continued investment priorities favoring heavy industry and defense, coupled with a rigid and cumbersome system ... combine to produce a consumer sector that not only lags both West and Eastern Europe, but also is in many respects primitive, grossly unbalanced, and in massive disequilibrium.*

Gorbachev's Tough Course. By 1985, the CIA characterized the economy Gorbachev inherited as "backward." In its September report, for example, the Agency reported record low growth in Soviet GNP of 1.4 percent from 1979 to 1982, recovering to over 2 percent in 1983-84. But the CIA did not find Gorbachev's first efforts to improve it encouraging.

If anyone understood what Gorbachev was up against, it was the CIA. The assessment identified a number of inherent contradictions in his reform program. Gorbachev outlined ambitious modernization goals for industry, but financing them would require "a potential decline of some 60 percent" in funding for the consumer sector. Yet, if Gorbachev wished to succeed in his campaign to improve abysmal worker productivity figures–another declared goal–he needed to increase the availability and quality of consumer goods as an incentive to work harder. In another example, Gorbachev announced plans to hold energy investment constant, yet "demand for energy will grow and the cost of offsetting declining oil production will be rapidly rising." Moreover, noted the assessment, the "increased managerial independence necessary to spur effective technological development and utilization is inconsistent with a centrally planned pricing and allocation system." Gorbachev, it summarized, must support more radical reform or fail:

> *Continued reliance on marginal tinkering despite clear indications that the plan for economic revitalization is faltering would indicate that Gorbachev, like Brezhnev before him, has succumbed to a politically expedient but economically ineffective approach.*

One of the surest measures of Soviet economic priorities had always been the amount of money it devoted to defense. Within six months, the CIA was able to report that Gorbachev appeared willing to move beyond "tinkering" to take on the defense establishment. A report published in March 1986, the one-year anniversary of Gorbachev's ascension, examined the implications of Gorbachev's economic reforms for Soviet defense spending.

Soviet Defense and Economic Reform Compatible?

In "Gorbachev's Modernization Program: Implication for Defense," the CIA pointed out that the two industries Gorbachev depended on to produce the machinery to fuel civilian industrial growth were the same as those supplying hardware to the military and durables to the consumer. Thus, these industries–machine building and metalworking–were under triple pressure to produce.

In the short run, said the intelligence document, the military might be willing to harness its demands because the bulk of production facilities for new weapon systems were already in operation. The real crunch would come, it projected, in 1988 or so, when the military establishment would need to plan for new generations of weapons.

Following publication of this paper, SOVA put together a briefing that went somewhat further and expressed the view that:

- The crunch was not just a possibility but a likelihood, because Gorbachev's half measures were not likely to result in the sought-for gains in productivity.
- This meant that Soviet defense spending was not likely to increase through the end of the decade.

The principal difference between this view and the more traditional view was not that defense spending was a burden for the Soviet economy, but that now there was a leader who would try to contain defense in order to deal with economic problems.

MacEachin and two other SOVA officers, Jim Noren and Derk Swain, briefed Secretaries Weinberger and Shultz on this assessment. Weinberger's reaction was in line with hardline thinking within the administration: if the Soviets fixed their economy, they would be even better equipped to then rebuild the military. Such a course would pose an even greater threat to US security than the current Soviet Union with its weak economy and would never justify cutbacks in US defense outlays. That was essentially how Bill Casey and Robert Gates, too, interpreted the intelligence reports. Shultz, on the other hand, saw in the analysis some favorable indications for arms control. According to MacEachin, Shultz specifically asked what was meant by the term "crunch point in 1988" and pursued the issue at some length.

The March 1986 assessment itself predicted little near-term impact from economic reform on Soviet foreign policy, particularly on arms control negotiations, because "the benefit to Gorbachev's industrial modernization plans would not be great over the next few years." However, the CIA noted that, "by promoting a more relaxed atmosphere and a perception of arms control opportunities, Gorbachev probably hopes to encourage downward pressure on US defense spending and greater access to Western technology and trade credits."

The CIA had long recorded the rising strength of the Soviet military. It estimated that Soviet defense spending had grown by 50 percent from 1965 to 1981, from some 45 billion(16) rubles to over 80 billion. From 1974 to 1985, the USSR added more than three times as many strategic weapons to its stockpile as did the United States. It also modernized and added to conventional forces. In 1976, the CIA had announced publicly that the Soviet "defense burden"–percentage of GNP devoted to defense–stood at11 to 13 percent. (17)

As early as 1982, however, and again in 1983, the CIA reported something new that caused it to revise its own estimates. Although absolute levels of Soviet spending on defense were still high, they had stopped growing. In 1983, SOVA reexamined previous estimates and concluded that growth in defense spending–specifically in procurement of military hardware, which accounted for 50 percent of the defense budget–had in fact tailed off beginning in 1976.(18) This had halved the growth of overall defense spending

from the 4 to 5 percent of the early 1970s to 2 percent (the CIA had reported contemporaneously 4-percent growth for the period 1976-81).

This development was considered significant and puzzling. The report said, "[b]ecause we do not fully understand the causes of the slowdown, we cannot provide a confident answer" [as to whether procurement will quickly rebound]. "Such a prolonged stagnation has not occurred since the 1950s," it said.

George Kolt, then the assistant National Intelligence Officer (NIO) for the USSR, remembers that CIA analysts would have liked to make a strong statement in an NIE being written at that time (summer 1982) about the leveling they saw in defense spending, going beyond simply noting it to conclude that "the Soviet Union could not forever sustain the defense burden:"

> *But I couldn't get this into the estimate. That was turned down at the direct opposition of the DIA [Defense Intelligence Agency].... On the analytical level [at CIA] there was willingness to accept our judgment, but when it came to the top, there was nobody willing to fight for it.*

This reluctance stemmed in part, perhaps, from an unwillingness by Intelligence Community statisticians to give critics any more grounds for complaint than they had already. In the mid-1970s, the CIA had suffered embarrassment and censure when its estimates of Soviet missile-building capability were found to be too low. In the early 1980s, ironically, the Agency reported that its estimates of growth in military procurement dating back to 1976 had been too high. In response, the CIA provided Congress, as well as critics in the academic and policy worlds, with lengthy explanations of its methodology for estimating both the Soviet economy and the size of its military. But, by and large, Agency statisticians and economists were proud of the quality and consistency of their work. Economic and defense spending estimates, they pointed out, had been particularly reliable in detecting trends. (19)

While the military and economic estimates may have drawn their share of criticism, at least those areas of Soviet activity were heavily studied. Social issues, on the other hand, got short shrift until 1984.

"Domestic Stresses on the Soviet System"

Analysis of social issues was not something to which the CIA traditionally devoted much staff time or energy. Nonetheless, some pieces examining social problems through the prism of economic analysis did reach publication. In 1979, for example, SOVA analyst Kay Oliver drafted a paper for National Security Adviser Zbigniew Brzezinski that chronicled an array of problems, including "Soviet consumer discontent [which] is rising and will cause the regime of the 1980s serious economic and political problems." Where the paper lacked insight, says Oliver, was in its assessment of what the Soviets were going to do about it. But the dilemma facing the Politburo was clearly explained.

A paper in 1982 laid out serious forebodings about popular unrest and high-level corruption. Another paper disseminated in 1983 drew attention to the importance of civilian discontent:

> *The scope and character of popular grievances that are suggested in recent civil unrest probably present a greater long-term challenge to the regime than the narrower intellectual dissident movement.* (20)

But SOVA settled into serious study of social issues only in 1984, when MacEachin–at Gates's behest–created a new Societal Issues branch and appointed Oliver as its chief.(21) This branch established itself with the publication in 1985 of an estimate drafted by Oliver and analyst Paul Cocks. At that point, Gorbachev had been in power barely half a year. The paper, therefore, provided a snapshot of the country Gorbachev inherited.

The Estimate. Titled "Domestic Stresses on the Soviet System," the NIE was coordinated by NIO/USSR Fritz Ermarth and NIO/Europe George Kolt.(22) In a rare comprehensive fashion unlike that of any earlier paper, the estimate catalogued and diagnosed the ills of Soviet society in the mid-1980s. The USSR suffered, it said, from an economic slowdown, an unmotivated labor force, a "parasitic" bureaucracy, a "moribund" leadership, a wide variety of criminal activities, alcoholism, and civil unrest. While the NIE characterized the Soviet Union as a "very stable country" in a global context, it noted that the political system itself had become an obstacle to growth and reform:

> *Unless the system is reformed in fundamental ways, it will hamper the growth its leaders seek because it stifles the innovation on which technological and social progress depends.*(23)

The Soviet regime, reported the NIE, also faced developing tension between popular aspirations and the system's growing inability any longer to satisfy them–an inability which could ultimately threaten regime stability:

> *We do not exclude the possibility that these tensions could eventually confront the regime with challenges that it cannot effectively contain without system change and the risks to control that would accompany such change.*

The NIE predicted reform efforts from Gorbachev, but expected they would be conservative, system-preserving measures on the model of those initiated by former General Secretary Yuri Andropov.

Ermarth worked hard to get the piece coordinated despite opposition from the Defense Department and others. DOD registered two footnotes taking exception to the CIA view that Gorbachev was seeking detente with the West in order to concentrate on domestic reforms. In the view of DOD, Gorbachev continued to regard as primary concerns the "advancement of its foreign and strategic goals." (24)

Ermarth regrets only that the estimate did not follow its observations to a logical conclusion:

> *I'm not proud of some of the bottom lines, because we pulled our punches. Not because Casey said so or Reagan said so, but because it would have been too hard to get coordinated in the bloody Intelligence Community. So, in our first paragraph, it says "terrible problems but they're not going to spell the end of the Soviet system." If we'd said they could spell the end of the Soviet system, none of the institutions would have signed up. Too sweeping a judgment, especially for the Defense Department.*

The NIE itself acknowledges with considerable insight, in the "Scope Note" preceding the analysis, that the Intelligence Community was increasingly at a loss for a theory that could adequately explain Soviet behavior:

> *Our analysis has also been encumbered by a lack of good social theory for describing the behavior of a society that is far from fitting the old "totalitarian model" but is still ruled by a regime that strives to fulfill many of that model's features.*

The estimate, recalls Ermarth, was well received in several quarters. Oliver personally briefed President Reagan on its key points. Hardliners, such as Casey, felt it confirmed their belief that the Soviet Union was "sick, powerful, and dangerous," says Ermarth. Kolt, on the other hand, felt the estimate "supported those in the Community who thought that those faults were out there, that this was not a monolithic society." That said, he added, the Agency could not predict when or even whether the faultline might crack wide:

> *One could not forecast when these weaknesses would become so prevalent as to make the whole establishment either change or collapse.*

NSC official Jack Matlock remembers that estimate and the resulting debate among policymakers:

> *That sort of analysis was objective. It was fairly complete. We got a lot of it. It was just, okay, where do you go from there? Some would say this is all true, but the sort of system they have, they can somehow weather it. They still control everything. They control the media. The KGB and the Party have informers all over the country. And you can't tell me that a system of that sort can't keep things under control. And I would have to concede and say that is true. On the other hand, if they ever start opening up–and there are good reasons for them to open up–then it's going to be a new ball game.*

Throughout 1986 and 1987, the evidence mounted that Gorbachev–if not a radical–was at least a skilled politician capable of shifting with the political winds as necessary to keep

his reforms rolling. The question was: how bad was the Soviet situation which Gorbachev had to manage?

Increasingly, some observers found the CIA estimates of Soviet defense spending and economic performance rosier than warranted. Coincidentally, in early 1986, critiques from two very different quarters questioned the accuracy of CIA estimates on Soviet defense spending and its economy. The report on the Soviet economy was commissioned by the CIA from outside experts; the observations on Soviet defense spending came from within the Agency.

Challenging the Estimates

The first critique came from Harry Rowen, a well-respected academic and public servant who had served as chair of the NIC from 1981 to 1983.(25) His thinking on the CIA economic estimate had evolved over two years, starting with a request in 1984 from DDI Gates to form a committee of prominent academics to look at the CIA's economic work. The committee's report, issued in March 1985, was not classified, but it was private. Rowen says the committee awarded the CIA a C+ or B- for its work. "It basically said the Soviet economy is probably worse off than you're saying, but we don't know enough to say you're horribly off."

During 1985, however, Rowen's own views evolved to the point where he concluded that the Soviet economy was deteriorating much faster than reported by the CIA. In the summer of 1985, he circulated a paper to that effect to Weinberger, Shultz, Casey, and National Security Adviser Robert McFarlane which said that, while the CIA had estimated annual Soviet GNP growth of 2 to 5 percent over the past decade, "there are reasons to believe that this number is probably the upper bound of performance. Actual growth overall might have been less, perhaps close to zero."(26) Rowen cited testimony from emigres which "is widely discounted by Western scholars" that the standard of living as well as productivity was in decline.

In April 1986, Rowen and three like-minded Soviet experts reiterated their skepticism to Reagan and Bush in a half-hour meeting:

> *I said we really don't know what's going to happen here as a result of this rather different portrayal of the economic situation. We were not saying it's going to fall apart politically. But one thing we were very clear on, and that's that everybody who was negotiating with that country... is in a stronger inherent position than one might believe if one were listening to ... intelligence from the CIA. You're better off than you might realize.*

Reagan, says Rowen, "understood that perfectly well."

At the same time Rowen was briefing the President, a high-ranking CIA official was completing a memo questioning the accuracy of recent CIA estimates of Soviet military spending.

MacEachin's Memo. In April 1986, Douglas MacEachin was director of SOVA. In a memorandum which he submitted to then DDI Richard Kerr, MacEachin argued that the recently observed flat line in Soviet military spending was going to stay that way. Toward the end of 1985 and the beginning of 1986, argued MacEachin, it became clear that Gorbachev wanted to fix the economy and that the only place to turn for immediate savings was the military. MacEachin wrote that all projections in the current NIE for Soviet military spending were too high:

> *Our analysis shows that the "low forces" projected in the NIE would require Soviet procurement spending on the strategic mission to increase [deleted] an average annual growth of 11 percent. To support the "high" forces projected in the estimate, procurement spending would have to increase at an average annual rate of 13 percent.*

Such sustained growth even at the lower rate, the memo pointed out, had occurred only once before: from 1966 to 1970, when Brezhnev built up the military after he ousted Khrushchev. The current NIE procurement projections, the memo continued, "would imply that Moscow has no intention of *attempting to* carry out" the industrial modernization program "which the new Soviet leadership has publicly made the centerpiece of its agenda."(27)

In addition, MacEachin contended that not only the current NIE, but also those going back for a decade, had systematically overstated the Soviet arms procurement program. Kerr took the memorandum to the National Foreign Intelligence Board (NFIB), which does a final review of NIE. There, Kerr reiterated the memo's argument that "we can't go up at the rate of these numbers. Something is wrong." Kerr brought along a proposed dissenting footnote to the NIE on Soviet strategic forces. As MacEachin remembers it, Casey was impressed by the reasoning and evidence of the memo, but the footnote never appeared:

> *It was, quite frankly, not Mr. Casey's fault and I know that. But there were others in the Community who felt that they could not put out an annex that showed projections with a note on the front of it that said these are all wrong.*(28)

The NIE projections remained the same despite MacEachin's memo. Actual Soviet performance, however, never approached the optimistic US predictions. The CIA documented the USSR's deteriorating situation.

Down the Troubled Path. In July 1986, the joint CIA-DIA report to the JEC, *The Soviet Economy Under a New Leader*, restated many of the CIA concerns and conclusions voiced the previous fall in the assessment "Promises, Potentials, and Pitfalls." It laid out once again the potential tensions between a powerful military and a needy industrial base, not to mention a grossly underserved consumer sector. One subsection was brusquely titled "Dependence on Unrealistic Conservation and Productivity Goals." Gorbachev's economic plan, said the report, was illogical:

Moderate investment growth appears inconsistent with a radical modernization of the economy.

While the report emphasized once again the impressive strength of the Soviet military, rising military hardware sales to Third World countries, and sweeping improvements to both strategic and conventional forces, it also reported that overall growth in defense spending had held steady at 2 percent from 1974 to 1985. The document noted that while differences continued to exist between CIA and DIA on estimates of Soviet defense spending--``We have not settled on an estimate for last year"--the two agencies were near agreement that the growth in military procurement was nearly flat (which the CIA had been saying since 1982). The report put the "defense burden" for the early 1980s at some 15 to 17 percent.

Some within the US policy community saw the leveling in defense spending as an indication that the Soviet Union, whether by choice or because forced to by economic stresses, was embarked on a new road which could lead to improved relations with the United States and its allies. Others, however, remained highly skeptical of Gorbachev, his motives, and his mission. Gorbachev had failed to win the trust of top CIA official Robert Gates.

Gates on Gorbachev

Many thoughtful people within the Intelligence Community had legitimate doubts about Gorbachev. Lieutenant General Odom of the NSA articulated the thinking of many when he wrote in 1987 that the Soviet leader's program, if followed to its logical conclusion, would lead to Gorbachev's political suicide and the collapse of the system. As this seemed unlikely, concluded Odom and others, Gorbachev did not intend to do what he said he would. As the general wrote:

It seems more and more clear that Gorbachev himself does not intend systemic change. He is exercising with remarkable energy and cunning the system bequeathed him by previous general secretaries. He is struggling to regain the vitality once possessed by the system and which especially Brezhnev, but also Khrushchev, let slip into decay. If what one means by reform is a significant improvement in the standard of living for Soviet citizens and increased protection of their individual rights under law, that kind of reform cannot go very far without bringing about systemic change--the kind of change that Gorbachev cannot want.(29)

Gates remembers holding similar views in 1986, when he was DDI. Gorbachev, he says, "could not carry out a process of democratization and leave the Communist Party structure and the national security structure, including the KGB, intact":

Perhaps the source of my great pessimism in terms of the prospects for his reform over time was my belief that his economic reform program was deeply flawed and

contradictory, that in fact he remained a Communist and was unwilling to take [real] steps toward a market economy.(30)

Reflecting such convictions, Gates in testimony on March 16, 1986, seemed to dismiss the possibility that Gorbachev's changes so far should be taken seriously. In hearings before Senator Bill Bradley and other members of the Senate Intelligence Committee, Gates was asked what kind of work the Intelligence Community was doing to prepare policymakers for the consequences of change in the Soviet Union. He responded:

Quite frankly, without any hint that such fundamental change is going on, my resources do not permit me the luxury of sort of just idly speculatin on what a different kind of Soviet Union might look like.(31)

Six months later, promoted by then to the position of DDCI, Gates had apparently changed his mind, at least about the advisability of closely monitoring Soviet developments. On October 16 he sent a memorandum to his replacement as DDI, focused on the quality of CIA analysis of changes within the Soviet Union. In this memo, Gates expressed concern that "We are not being creative enough in the way we are analyzing internal Soviet developments":

From talking with Soviet defectors and emigres and people who are in touch with middle-level Soviet officials in one way or another, I sense that there is a great deal more turbulence and unhappiness in the Soviet Union than we are conveying in anything we have written.

Gates asked for more information on Gorbachev's concrete undertakings, on the state of the economy, for a broader overview pulling together all the strands of his program:

While we have talked about tinkering with the system, has he actually done a great deal more than that and set in motion even more to create the possibility of qualitative change in the Soviet system over a several-year period?

However, lest anyone within the Intelligence Community take Gates's memorandum as a sign that his skepticism about Gorbachev had softened, he delivered a speech barely a month later in which he accused the Soviets of waging virtual war against the United States in a variety of theatres around the world. He called the November 25 speech "War By Another Name." In it, Gates declared that:

We are engaged in an historic struggle with the Soviet Union, a struggle between age-old tyranny--to use an old-fashioned word--and the concept that the highest goal of the State is to protect and foster the creative capabilities and liberties of the individual. The battlelines are most sharply drawn in the Third World.

He accused the Soviets of encouraging terrorism, and of targeting four areas for expansion: the Middle East oilfields, the Isthmus and Canal of Panama, the mineral wealth of South Africa, and the Western alliance:

[The Soviets] use conflict in the Third World to exploit divisions in the Alliance and to try to recreate the internal divisions caused by Vietnam in order to weaken the Western response and provoke disagreement over larger national security and defense policies.(32)

In January 1987, Gates testified before the Senate Foreign Relations Committee that, in Iran, the Soviets "remain poised to take advantage of the inevitable instability and opportunities that will present themselves in a post-Khomeini era."(33) This was not the concensus within the CIA.(34) Yet, Gates's views were fully in line with the thinking of many administration leaders at the time. In January 1987, the White House issued a 41-page paper, *National Security Strategy of the United States,* which, according to one informed reader, reflected none of Gorbachev's changes and "could have been written in the 1950s at the nadir of relations."(35) Among other conclusions, the report said that "Moscow seeks to alter the existing international system and establish Soviet global hegemony." This paper, reports Soviet expert Raymond Garthoff, had little influence on policy.

Nonetheless, Gates's speech and the testimony dismayed many within the Agency, and some outside, for its political partisanship. In the speech, even though Gates subsequently said the views expressed were his own, he gave the appearance that his words reflected the analysis of the Intelligence Community and especially the CIA. In the testimony, he seemed explicitly to speak with the authority of the Community.

This was particularly the case, given that Gates since December 1986 was acting DCI. Suffering from a brain tumor, Casey had resigned as DCI from his hospital bed in January 1987. President Reagan nominated Gates as his successor. During confirmation hearings, however, grave doubts were raised about the role Gates might have played in the unraveling Iran-Contra scandal, and his nomination was withdrawn. Judge William Webster, head of the FBI, in May 1987 became the new DCI while Gates stayed on as DDCI.

Shultz Still Unhappy. Secretary of State Shultz was among those offended by Gates, Casey, and their apparent bias. In January 1987, Shultz told Frank Carlucci, the newly appointed National Security Adviser and a former DDCI, how little confidence he had in the Intelligence Community. Shultz protested "that I had been misled, lied to, cut out. I felt that CIA analysis was distorted by strong views about policy":

When Gorbachev first appeared at the helm, the CIA said he was "just talk," just another Soviet attempt to deceive us. As that line became increasingly untenable, the CIA changed its tune: Gorbachev was serious about change, but the Soviet Union had a powerfully entrenched and largely successful system that was incapable of being changed, so Gorbachev would fail in his attempt to change it. When it became evident that the Soviet Union was, in fact, changing, the CIA line was that the changes wouldn't really make a difference.(36)

Shultz's accusations seem intended chiefly for the CIA leadership. The Agency itself was, according to its analysts, doing its best to bring to policymakers' attention the changes within Gorbachev's USSR.

What the Assessments Were Saying

NIO/USSR Robert Blackwell was proud during that period of publishing, despite opposition from the Defense Department and elsewhere, "What I thought of at the time as some forward-leaning estimates, trying essentially to say the guy's for real and means to have real change":

> *This is not smoke and mirrors. Now, was I saying he was going to disband Communism and break with Eastern Europe? Did I say very early that he was getting out of Afghanistan? I didn't say that. But we were saying things like he'll allow almost as much reform in Eastern Europe as a Communist regime can tolerate.*

In late 1987, for example, the CIA produced a warning piece on nationalities within the 15-republic USSR. The report, published as an article in the *National Intelligence Daily*, looked at the common features of the instability in the Baltic states, the Caucasus, and Central Asia. In combination, said CIA, these incidents portended a crisis which would be difficult to contain. The State Department's Bureau of Intelligence and Research (INR) did not agree. In a dissenting footnote, it called the CIA assessment alarmist.

At roughly the same time, the Defense Department took exception to CIA views in a November 1987 estimate on Soviet policies and politics in the 1990s. Blackwell says the NIE stated outright that what Gorbachev was doing "has the potential for the most significant changes in Soviet policies and institutions since Stalin's forced regimentation of the country in the 1920s." The document included debate as to whether Gorbachev could carry off his reforms successfully or not, but it discerned a potential for dramatic change within the system. General Odom penned a long dissent to the estimate for the National Security Agency, says Blackwell, disagreeing with the fundamental conclusion of the assessment. The NSA view was that there was no potential for fundamental change in the USSR; rather, Gorbachev's personnel changes were another purge along the lines of those Stalin engineered, meant to reinvigorate the Communist Party and increase Gorbachev's own power.

Another estimate in the spring of 1988 addressed the implications for Eastern Europe of the changes within the Soviet Union. Its conclusion was, for the time, fairly bold: any government would be acceptable to Moscow if it called itself Communist. The USSR would not invade to protect its empire. Kay Oliver, then head of SOVA's Domestic Policy Division, likewise takes pride in papers from the mid-1980s:

> *During this critical period–early and mid-Gorbachev–I think we were pretty far ahead, at least as far as the social and nationalities end of things went. In terms of raising the question of the difficulty of empire under those conditions and*

pointing increasingly to the contradictions in Gorbachev's program, that were having the effect of knocking out the props of the old system without providing a coherent new set of institutions and policies, in terms of marketization but without private property, a thousand voices heard as far as nationality grievances but no devolution of power, democratization but maintenance of the Communist Party monopoly.

New Measure of Defense. Meanwhile, the CIA took a new look at Soviet spending on defense. A February 1987 research paper, "Defense's Claim on Soviet Resources," broadened the definition of defense to include military and economic assistance to client states, as well as the costs of maintaining strategic reserves. The paper then broke down the impact of defense spending on individual industries, as well as its drain on the labor pool.

But the report drew no provocative conclusions, preferring to be noncommittal. Noting the huge role defense played in the Soviet economy, the paper predicted once again fierce competition for resources between the military and civilian sectors. Its heavily qualified conclusions:

> ... *the Soviet leadership* would probably prefer to favor industrial modernization over defense *when allocating newly produced equipment, intermediate products such as electronics and high-quality metals, and newly available labor resources. [Yet] Given an apparent worsening of the external military threat or good economic results in the early years of the five-year plan, the leadership* might perceive an acceleration of defense activities *to be the appropriate resource allocation policy. (underline added)*(37)

Gorbachev on a Tightrope. A July 1987 SOVA report was more opinionated. In the preface to "Gorbachev: Steering the USSR into the 1990s," author Jim Noren warned that "judgments regarding Gorbachev's situation will appear somewhat less sanguine than those found in earlier CIA papers," both because the focus would be on Gorbachev's difficult choices, rather than on consolidating power; and because of newly observed "indifference and opposition" from entrenched interests and average workers alike.(38)

The SOVA report said that Gorbachev's economic reform--now christened perestroika (renewal)--"amounts to a set of partial measures":

> *Gorbachev has been searching for a formula that encourages more initiative at lower levels while permitting control to be maintained from the center. This is a delicate balance at best.... Even his supporters are concerned that he will need to win new victories before long if he is to sustain the momentum for change he has generated.*(39)

In pursuit of victory, predicted SOVA, Gorbachev would seek arms agreements in the final years of the Reagan administration; he would push forward with more radical reform; and he would promote elections at lower levels as a means of exposing

opponents. But, to date, said the SOVA report, Gorbachev could boast only of good intentions; he had as yet no coherent plan:

> *Gorbachev...seems disposed to go beyond the tinkering with the system that satisfied his predecessors. But a great deal of uncertainty surrounds his ultimate economic reform objectives. Indeed, Gorbachev admits that his reform program is being worked out `on the march.'*

As for Gorbachev's support among the military, SOVA noted that, while there were repeated instances in which "Soviet officers openly discuss the opportunity costs of resources devoted to defense," overall defense establishment support for "industrial modernization coupled with constraints in defense programs is ambiguous." But SOVA had observed a general reluctance to increase defense spending. "SDI, in particular, confronts the Soviets with an extreme form of competition they wish to avoid," it said. The authors also pointed out that Soviet leaders had discussed cutting assistance to client states as an economy measure.

But Gorbachev, the report made clear, was walking a tightrope. With understated drama, a section entitled "The Consequences of Failure" raised the possibility that the Soviet leader would be ousted:

> *The risks in a more radical reform and a rewrite of the social contract are that confusion, economic disruption, and worker discontent will give potential opponents a platform on which to stand. Gorbachev's position could also be undermined by the loosening of censorship over the written and spoken word and the promotion of limited democracy. If it suspects that this process is getting out of control, the Party could well execute an abrupt about-face, discarding Gorbachev along the way.*

In other words, Gorbachev could be brought down by the very reforms he initiated.

A joint DIA-CIA assessment for the JEC published just a month later, in August 1987, was considerably less assertive, presumably due to the process of "coordination" or consensus-seeking which typified Intelligence Community documents. The assessment, titled "Gorbachev's Modernization Program: A Status Report," listed once again the limited successes of Gorbachev's program, while pointing out the obstacles he faced. While 1986 appeared by most measures a success–with GNP growth of 4.2 percent the highest in decades and agricultural production up a stunning 7.3 percent, thanks to a record grain harvest–consumers had fared poorly, hard currency exports (especially oil) were seriously lower, and bureaucratic resistance to reforms was growing. The Intelligence Community observed that Gorbachev needed to make 1987 a banner year in order to show solid returns for his reforms and face down his opposition. The assessment projected GNP growth at 2.3 percent through 1990, compared to Soviet targets of 4 percent.

Gorbachev's chosen path, it concluded, was "inherently risky":

The decisions Gorbachev will have to make over the next few years will be controversial and could well solidify opposing interests in the Party and government.

One of the decisions Gorbachev had to face was what to do about Soviet involvement in Afghanistan. Yet, CIA reporting on a possible withdrawal from Afghanistan was, according to a variety of experts, surprisingly scant.

The Withdrawal From Afghanistan

The question of whether or not the Soviets would pull out of Afghanistan was one of those which split the policy and intelligence communities down their ideological divide. The hardliners doubted it would happen; the opposing camp noted mounting signs of the possibility. In February 1986, Gorbachev had called Afghanistan an "open wound." Starting in early 1987, he and his deputies started to signal a willingness to pull out. In July 1987, Gorbachev told a newspaper reporter of an agreement in principle to withdraw. In September 1987, Foreign Minister Eduard Shevardnadze confided to Shultz that the Soviets would be pulling out soon.

Yet, the CIA had little to say on Afghanistan. Shultz remembers that, when asked, the Agency dismissed the Soviet talk as "political deception."(40) Eric Edelman, a State Department officer assigned to the Moscow Embassy in charge of the Afghan portfolio, recalls a deafening CIA silence on Afghanistan at a time when he went out on a limb to predict imminent withdrawal. In December 1987, Edelman, supported by Ambassador Jack Matlock, drafted a cable to that effect:

The reaction I heard from people back in Washington was that the embassy had gone soft, the embassy had developed clientitis for the Russians. There was an absolute unwillingness to accept the notion that the Russians might be willing to get out and wanted to finally negotiate. I always attributed that in part, frankly, to the stake that the CIA had in the counterinsurgency program in Afghanistan.

Edelman proved insightful. On February 8, 1988, Gorbachev announced to the nation that the Soviet Union would begin a 15-month phased withdrawal from Afghanistan beginning in May. Only then did the CIA do an estimate reporting that Gorbachev was serious about pulling out of Afghanistan. But even then, says Shultz, the CIA was wrong when it predicted that the Soviet-supported regime would topple, once Moscow pulled out. In fact, it survived to continue the war against the US-supported *mujahedin.*

NIO Blackwell thinks the delay on Afghanistan was motivated not by allegiance to CIA covert operations, but by a chronic difficulty confronting intelligence analysis:

There is always a problem in intelligence. After something is already evident, it doesn't do you much good to project it. But if there is no data on which to really say it, what are you doing other than giving your opinion? There is a great tension. Some of us felt that it would be consistent for [Gorbachev] to find a way

to get out of [Afghanistan], just as it was consistent that he would be prepared to go with INF.

Whether it should have been predicted or not, Gorbachev did surprise many observers with his withdrawal from Afghanistan. Likewise, he repeatedly startled US leaders with his concessions in arms control negotiations.

Arms Control

The litmus test for the "new" Soviet Union under Gorbachev became whether it would accept proposals which the old Kremlin would have rejected out of hand. Although in the earliest months of his rule the CIA told policymakers Gorbachev would unlikely push for arms agreements because they offered few short-term benefits, by early 1987 that had changed. By then, Gorbachev had mentioned frequently the need to be more efficient in the use of military resources. Soviet military officers, in turn, seemed aware of the pressing need to favor growth in the civilian economy. Now, arms control agreements, said the CIA, would lessen the pressure on Gorbachev to reallocate massive resources to the military.

Events seemed to bear out this analysis. Early into Gorbachev's rule, as top Reagan administration officials such as George Shultz saw the possibility that Soviet reform was for real, US policymakers sought arms policies that would help Soviet reformers persuade hardliners that compromise was to the advantage of the USSR. Matlock remembers he and others worked on offers "which were not to their disadvantage":

If you assume a peaceful intent--and probably that's something Gates and Casey would not have assumed--then you define something that for a peaceful state will not be to their disadvantage. And what we defined was precisely that....We had to give them, by such things as deployment [of INF], by the military buildup, an irrefutable argument to the Soviet military that look, if you don't do this, you're going to get something even worse.

Following the get-acquainted Geneva summit of November 1985, Gorbachev and Reagan met again at Reykjavik, Iceland, in October 1986. Although Reykjavik is remembered as a failure, most participants subsequently agreed the only failure was in measuring up to spectacular expectations. In fact, the summit led to dramatic advances in a number of fields. The presidents agreed to make human rights a permanent part of their agenda. They established the basis for reducing strategic nuclear forces on both sides by 50 percent over five years. As for INF arsenals, the Soviets agreed to a remarkable cutback from 1,400 warheads to 100 worldwide. There was even talk of eliminating nuclear weapons from the face of the Earth.

Building on the progress made at Reykjavik, Gorbachev and Reagan were able only 14 months later, in December 1987, to sign an INF treaty at a summit meeting in Washington. The administration was gratified but not complacent. As Shultz said, US policy should be the same whether Gorbachev proved sincere or not:

We can continue to afford to let [Gorbachev be] the innovator as long as he keeps innovating in our direction.(41)

In fact, say some insiders, administration hardliners may have been stupefied at Gorbachev's willingness to sign the INF Treaty. Says NIO Blackwell:

The INF Treaty was never meant to be said yes to by those who drafted it. By Ronald Reagan, yes, but not by Richard Perle. No one ever thought they would do that because it had all sorts of things in it. It was deliberately loaded so that that would never happen.

MacEachin saw Gorbachev's acceptance of the INF Treaty as yet another signal that he was a new brand of Soviet leader. As MacEachin told a group of Senators in a classified briefing in late 1988:

The INF position was designed with a careful calculation that the Soviet Union would never say yes to a zero-zero proposal like was offered. The correct calculation. That Soviet leadership wouldn't have. This one did.(42)

But Gorbachev had long since proved himself a master of surprises. The next one would come just a year later, when Gorbachev addressed the UN on December 7, 1988. Before that, however, many CIA analysts and policymakers had concluded that the Soviet Union was changing in ways more profound than anything since the 1917 Revolution.

Mid-1988 Assessments

In May 1988, President Reagan registered yet another historic moment in the fast-evolving US-Soviet relationship when he paid his first visit to Moscow for another superpower summit. Reagan arrived reinforced by last-minute Senate approval of the INF Treaty. At the summit, the chief focus was human rights, as Reagan met with human rights activists and spoke out on the issue of individual freedom.

But, while Reagan's presence in Moscow was testimony to Gorbachev's elevated status in the global community, US intelligence analysts saw growing and disturbing signs that the Soviet leader was losing control domestically over the process he had unleashed. In the wake of the largely symbolic achievements of the May summit, the Intelligence Community in June 1988 published three assessments examining Gorbachev's progress to date. Although not designed as a package, the three simultaneous reports reflect the different kinds of work coming out of the CIA. A joint CIA-DIA report to the JEC is an overview of the economy. Two SOVA publications look, respectively, at the Soviet budget deficit and national security policy.

Problems Emerge. The report to the JEC was called "Gorbachev's Economic Program: Problems Emerge."(43) Instead of a banner year as planned, 1987 proved a disaster. GNP grew by less than 1 percent, as compared to government plans for 4 percent and CIA projections of 2 to 3 percent. Although bad weather and a poor harvest contributed to the

bad results, the chief reason was particularly troubling: Gorbachev's efforts to force through higher production levels concurrently with improved quality resulted in managerial revolt and productivity stagnation. The implications for Gorbachev's future efforts were not good:

> *The leadership had hoped that a strong economic performance last year would provide a firm foundation for the future development of Gorbachev's economic program, but this did not occur(44).... The short-term outlook for Gorbachev's economic program is not good.*

The assessment said the leadership, to continue its high-investment strategy, would have to tap resources from defense and/or other sectors of the economy or increase imports. Even these measures, however, would prove minimally useful if economic performance continued to lag.

Budget Deficits Threaten Reform. A SOVA report put Gorbachev's quandary more candidly than the joint CIA-DIA paper, saying "USSR: Sharply Higher Budget Deficits Threaten Perestroyka." The research document reported a six-fold increase in the 1987 deficit over 1984, equal to a sobering 7 percent of GNP (the record-high US budget deficit in 1986 was 3.5 percent of GNP). Moscow, said SOVA, "is essentially financing its deficits by printing money and the resulting inflation is clearly visible." It blames perestroika for much of the deficit rise: state investment spending was up, but receipts on alcohol sales were down; revenues from import taxes were down due to cutbacks in import purchases; enterprise profits, and, therefore, taxes, were down due to new quality-control measures instituted by the government. SOVA outlined some remedial steps Gorbachev could take, but stressed that he "must act quickly" to forestall serious inflation.

Among the extra costs for the Soviet Government, SOVA reported rising subsidies to agriculture, steadily higher defense costs, outlays for the war in Afghanistan, rising social welfare needs, and spending on the Chernobyl nuclear accident. Thus, total government spending rose a record 30 billion rubles in 1986 and another 18 billion in 1987, while revenues during the same period grew by only 5 billion rubles.

The Politburo apparently recognized the situation, calling for cuts to "national economy" spending (capital improvements and subsidies) for the first time in 25 years. In May 1988, the official newspaper *Pravda* made a rare public reference to a budget deficit. But a speech from the finance minister provided no clues on how the deficit would be financed, said SOVA:

> *His vagueness is understandable, however, since we believe the revenue shortfall will be made up by money creation.*

The Soviet Government, it explained, was able to create money "from thin air" using loans from the State Bank to meet current expenses, as though the loans were tax revenues. Under its own accounting procedures, the State Bank's balance sheet showed

no effect from these loans. The result was an apparent 9-percent inflation rate in 1987, as compared with 2.2 percent the preceding five years. Meat prices in Moscow state markets rose 18 percent from 1985 to 1987. In a related development, shortages intensified as people started hoarding goods. As for defense spending, SOVA noted an interesting comment from a Soviet general who said in an interview that "Our plans include a reduction of military spending in order to allocate the money to other areas." In a formulation apparently designed to counter criticism that SOVA underestimated Soviet military determination, the report commented that:

> *While this statement and similar ones could reflect a propaganda motive, they might also reflect the budget situation.*

Gorbachev and others had in recent years boldly identified the nation's economic problems, "even at times suggesting that a crisis situation existed." While such high-level statements could be politically useful to motivate the population, SOVA felt perhaps a crisis was truly brewing:

> *There is also a tone of real concern in many of the comments, which is reflected in the hurried and heedless nature of many of Gorbachev's initiatives. [Sentence deleted by CIA.] However, the rush to put new policies in place has, if anything, exacerbated the economy's problems....The cost of living is higher, shortages have intensified, modernization is proceeding at a snail's pace, and the economy's fastest growing industry is moonshining.*

While this report was relatively hard hitting, it attracted only ordinary attention. The third of the June 1988 assessments aroused, however, considerable controversy.

Soviets May Impose Unilateral Military Cuts. This assessment was titled "Soviet National Security Policy: Responses to the Changing Military and Economic Environment." In it, SOVA acknowledged the view of the administration hardliners that much of a burgeoning debate in the USSR over the size and composition of Soviet military forces "is designed to influence Western opinion by portraying Soviet military aims as nonaggressive, seeking only what is necessary to ensure the security of the USSR." But SOVA felt there was more going on:

> *Nonetheless, there is, we believe, persuasive evidence from both classified and open sources that the discourse goes beyond mere propaganda and involves fundamental issues that have potentially important ramifications for Soviet security policy and military forces over the longer term.*

Lest this passage, which appeared in the opening Key Judgments section, seem oblique, the authors spelled out their position on the last page of the 22-page assessment, which documents the military history and philosophy of the Soviet era. If Gorbachev continues to require financial resources to put his economic reforms on track, it said, "he may well try to impose unilateral cuts" on defense spending:

The poor results from Gorbachev's efforts so far to launch economic revitalization suggest that there is, we think, a good chance he will be forced to adopt this course.

This judgment jarred the internal CIA bureaucracy, recalls MacEachin, one of the authors of the report. First, it took nearly nine months to get the document, the third in a series on the impact of Gorbachev's reforms, through the CIA's internal coordination and publishing process. Most disappointing, remembers MacEachin, was that for the most part, "people simply ignored it [the paper]" because it ran against administration thinking:

The idea of warning the administration that the whole foundation for their existence was going to go away voluntarily or because of social evil was not on.... Nobody was standing up to the Reagan administration. They dominated everything. And so the senators were all running for cover. Nobody challenged them on that. You could challenge them on a lot of things, but you certainly didn't challenge them on the Communist threat.

MacEachin sees the failure to pay attention to this estimate as part of a larger pattern of US self-deception, willingly promoted by an administration anxious to rebuild American military power and aided and abetted by inflated Intelligence Community projections of Soviet military strength:

Never mind that the Soviet Union never in 10 years, from the late 1970s through the entire 1980s, ever lived up to the projections that were made.

It wasn't that the Reagan administration spent them into a crash. We projected these huge forces, then used those projections as a rationale for our spending, and they never lived up to those projections.

With such views, it must have been satisfying for MacEachin when, a scant six months after SOVA published its unpopular prediction, Gorbachev stunned the world by making unilateral cuts in Soviet forces.

Gorbachev Forges Ahead

By fall, Gorbachev's position had looked precarious. In September 1988, SOVA wrote a memorandum warning that Gorbachev was running up against so many vested interests that a leadership showdown was likely. Within days of that memo, Gorbachev at a Party plenum moved to outflank the Party by calling for multiparty elections and his own appointment as president. Most observers felt it was during that period that Gorbachev finally gave up on reforming the Party, realizing his only course was to break its monopoly hold on political power. As MacEachin says:

As important as we thought it was at the time, in hindsight it was even more important.

Gorbachev's action at the plenum, however, reinforced those both at CIA and among US policymakers who felt that the General Secretary was effecting real change. Approaching Thanksgiving, Gates and MacEachin together testified to a Senate Intelligence Committee task force on the Soviet Union chaired by Senator Bill Bradley. At the meeting, Gates opined that the Soviets would not cut military spending any time soon. MacEachin disagreed and remembers he told the committee so:

> *I said, just to prove we're not a monolithic center, I'll tell you I'll disagree with my boss and I'll say that they will.*

Gorbachev's Surprise. The next month, on December 7, 1988, MacEachin and other top-ranking CIA officials appeared again before the task force as Gorbachev spoke at the UN. With a flourish, Gorbachev announced not only unilateral Soviet reductions of 500,000 troops in the Warsaw Pact forces, but also articulated a Soviet national security philosophy of "live and let live":

> *Everyone ... is required to restrict himself and to exclude totally the use of external force.... The compelling necessity of the principle of freedom of choice is also clear to us.... This objective fact presupposes respect for other people's views and stands, tolerance, a preparedness to see phenomena that are different as not necessarily bad or hostile and an ability to learn to live side by side while remaining different and not agreeing with one another on every issue.*(45)

As the news of Gorbachev's startling offer was brought to the hearing room in Washington, MacEachin commented on its significance:

> *If Gorbachev is able to politically manage this, it would suggest to me that there is enough consensus behind the whole issue of resource allocation between civilian and military purposes that, even if he should pass from the political scene himself four or five years from now because of the nature of certain reforms or political infighting or political scars, that there is at least enough of a body of opinion that wants to move in that direction that that part of it may well sustain itself.*(46)

MacEachin made the further observation that it was important for the Intelligence Community to recognize that the fundamental changes in the USSR could provoke a similarly profound transformation in US ideology:

> *The Soviet Union is so fundamental to our outlook on the world, to our concept of what is right and wrong in politics, to our sense of security, that major change in the USSR is as significant as some major change in the sociological fabric of the United States itself.*

In his hearing, MacEachin also voiced for perhaps the first time in public the frustration of at least some within the Intelligence Community who felt they had been unable to promote a comprehensive understanding of the Soviet Union in what he termed a "not-

neutral political environment." MacEachin noted that the CIA, while studying political instability in other nations around the globe, "never really looked at the Soviet Union as a political entity in which there were factors building which could lead to at least the *initiation* of political transformation that we seem to see":

> *Moreover, had [such a study] existed inside the government, we never would have been able to publish it anyway, quite frankly. And had we done so, people would have been calling for my head. And I wouldn't have published it. In all honesty, had we said a week ago that Gorbachev might come to the UN and offer a unilateral cut of 500,000 in the military, we would have been told we were crazy.*

In truth, added NIO/USSR Robert Blackwell, Gorbachev had Soviet experts in all fields baffled:

> *Gorbachev for us is a discontinuity in our understanding of Russia and the Soviet Union. And we are having as a Community, as analysts individually, as a government, and as academics an enormous difficulty coming to terms with that because, by what he is doing, he has broken all of our china.*

One result, elaborated Blackwell, is that even though SOVA in a 1987 publication, for instance, "really tried to press the envelope" on what Gorbachev would dare to do, the assessment didn't go far enough:

> *If you look back at it now, it's too conservative.... It's too conservative both in we didn't capture how radical he would go and we didn't quite capture how much disorder would be created. We acknowledged it would happen but we didn't get its dimensions.*

By then, the Reagan administration was drawing to a close. On January 20, 1989, George Bush was sworn in as President of the United States. His Secretary of Defense was Richard Cheney; James Baker was Secretary of State.

NOTES

(1) *Foreign Affairs;* fall 1991; p. 15ln.

(2) Griffin, Rodman D. *The New CIA;* CQ Researcher; December 11, 1992; p. 1075.

(3) *The New York Times;* May 19, 1991; p. 17.

(4) One small hint typical of the kind of thing Kremlinologists considered significant in that period was that Gorbachev kept the military off the podium during the funeral.

(5) Shultz, George. *Turmoil and Triumph: My Years As Secretary of State;* Macmillan Publishing Co.; New York; 1993; p.532.

(6) While other branches of the Intelligence Community, such as INR and DIA, also contributed importantly to intelligence assessments of the USSR, this report spotlights the CIA as the chief purveyor of intelligence on Soviet affairs to US policymakers. The CIA was also most widely criticized for its work during this period.

(7) A background note on CIA's struggle to make intelligence analysis useful to policymakers, which is included in the original case study, is omitted here because of space constraints.

(8) In 1991 Congressional hearings, an Agency officer characterized members of the two factions as "knuckledraggers," or hawks, versus "com-symps," or doves. Other CIA officers feel these terms were overly dramatic and emphasize that the labels were not common usage within the Agency.

(9) This meant Casey was not only head of the CIA, but also chief of some 15 intelligence agencies arrayed through the State Department, the Department of Defense, and the armed services.

(10) Shultz memoirs, p. 691.

(11) *The New York Times,* Letters to the Editor; September 1987; Section 4, p. 34.

(12) Charges were aired in public only in 1991, when Gates was nominated for the second time to become DCI under President Bush. The nomination hearings allowed many disgruntled analysts to vent their anger against Gates. Gates's defenders said the unhappy analysts were young and taking personally rather than professionally what could be biting comments from Gates.

(13) Robert M. Gates Nomination Hearings, Senate Select Committee on Intelligence; September 16-October 18, 1991; Vol. 3, p. 34.

(14) Shultz memoirs, p. 704.

(15) *Ibid., p. 707.*

(16) Soviet Defense Spending: Recent Trends and Future Prospects, Directorate of Intelligence; July 1983; p. 2.

(17) This was an upwards revision of an earlier estimate which put the "burden" at 6 to 9 percent. Some CIA critics, however, felt the defense percentage of GNP was even higher and cited emigre reports that it reached 18 percent. For purposes of comparison, the US "defense burden" was roughly 5 percent of GNP.

(18) *Soviet Defense Spending*, p. iii. The CIA disclosed these findings in open hearings before the Subcommittee on International Trade, Finance, and Security Economics of the JEC on September 20, 1983.

(19) A background note on internal and external criticisms of CIA methodology, which is included in the original case study, is omitted here because of space constraints.

(20) From a conversation with Douglas MacEachin, July 14, 1993.

(21) The branch at first was called Security Issues, but intelligence/security questions later spun off into a separate branch, leaving Societal Issues behind.

(22) This study was published both as a SOVA paper and as an NIE; it was unusual for this to happen.

(23) *Domestic Stresses on the Soviet System,* NIE 11-19-85; November 1985; p.19.

(24) *Ibid., pp. 5, 20. The State Department's INR also noted its disagreement with the CIA characterization of "anti-Russian" nationalism in Central Asia, arguing that local nationalists had largely accepted the Soviet system.*

(25) Rowen in 1986 was a professor of public management at the Hoover Institute, Stanford University. He had been at various times in his distinguished career president of the RAND Corporation, a deputy assistant of defense, and an assistant director of the Bureau of the Budget.

(26) The paper was published shortly thereafter in *The National Interest*, "Living With a Sick Bear;" winter 1986; pp. 14-26.

(27) From Douglas J. MacEachin, Memorandum to the Deputy Director for Intelligence, April 22, 1986; p. 2.

(28) Gates's Hearings, Vol. 2, p. 274.

(29) Problems of Communism. *How Far Can Soviet Reform Go*!; November-December 1987; p. 30. Odom recalls that when, at Intelligence Community and NFIB meetings, he articulated the view that Gorbachev was destroying the system, his observations "provoked ridicule in the CIA and the National Intelligence Council."

(30) Hearings, Vol. 3, p. 129.

(31) *Ibid., Vol. 3, p. 177.*

(32) *Ibid., Vol. 2, pp. 639-655.*

(33) *Ibid., Vol. 2, p. 411.*

(34) Testimony at the Gates hearings publicized a February 1986 estimate, which reported that worries about growing instability in Iran had abated. An earlier estimate, in May 1985, had warned that growing instability could offer Moscow opportunities.

(35) Garthoff, Raymond. *The Great Transition: American-Soviet Relations and the End of the Cold War*; The Brookings Institution; 1994; p. 308.

(36) Shultz memoir, p. 864.

(37) *Defense's Claim on Resources.* Directorate of Intelligence Research Paper; February 1987; p. vii.

(38) This report was the first in a series of three, examining, respectively, the economy, the dynamics of party-military relations, and the debate on Soviet security policy. *Gorbachev and the Military: Managing National Security Policy* would be published in October 1987; *Soviet National Security Policy: Responses to the Changing Military and Economic Environment* came out in June 1988.

(39) *Gorbachev: Steering the USSR Into the 1990s;* Directorate of Intelligence; July 1987; pp. vi & viii.

(40) Shultz memoirs, p. 1,087.

(41) *Ibid., p. 1,003.*

(42) Hearings, Vol. 2, p. 554.

(43) This report was also the third in a series on the economy under Gorbachev. The author has not seen the other two.

(44) *Gorbachev's Economic Program: Problems Emerge;* DIA-CIA; June 1988; p. iii.

(45) Shultz memoirs, p. 1,107.

(46) All of the following quotes are taken from the transcript of the task force proceedings made public during the Gates hearings. Hearings; Vol. 2; p. 516 et al.